

**Supplemental Reporting Document
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October 2008 Investment Committee Meeting
(August 2008 Reporting Period)**

Quarterly and Annual Reports

AIM Program

Emerging Markets/Investments in Underserved Areas



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October 20, 2008

SUPPLEMENTAL ITEM

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Quarterly Performance Report
- II. PROGRAM:** Alternative Investment Management (AIM) Program
- III. RECOMMENDATION:** Consent
- IV. ANALYSIS:**

Background

In accordance with AIM Program Policy and as provided for in the external resources' contracts, quarterly performance reports are required for the AIM Program. Attachment 1 provides the AIM Portfolio Performance Report as of June 30, 2008. The report may be modified over time to reflect additional enhancements.

Program Review

As of June 30, 2008, the AIM Program had a total exposure of \$50.8 billion. Since inception, the AIM Program has made contributions of \$37.2 billion and received distributions of \$25.8 billion and has a reported value of \$24.0 billion. Of the \$25.8 billion in distributions, \$13.9 billion represents realized gains, income, and dividends. The AIM Program has realized a 1.3x return of contributed capital. Since Inception to June 30, 2008, the AIM Program has generated a net IRR of 13.0%.

V. STRATEGIC PLAN:

Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

VI. RESULTS/COSTS:

Attachment 1 provides the Executive Summary for the Alternative Investment Management Program - Quarterly Review prepared by the Private Edge group of State Street Corporation and verified by the Performance Monitoring Unit staff.

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Investment Officer
Performance Monitoring Unit

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Division Chief
Operations, Performance & Technology

Anne Stausboll
Interim Chief Investment Officer

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

ALTERNATIVE INVESTMENT MANAGEMENT PROGRAM

QUARTERLY REVIEW

EXECUTIVE SUMMARY

*For the quarter ended
June 30, 2008*

Prepared by The Private Edge[®] Group, State Street Corporation



STATE STREET

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I. ALTERNATIVE INVESTMENT MANAGEMENT PROGRAM (AIM)

A. AIM PROGRAM - OVERALL PORTFOLIO

This quarterly review has been prepared by The Private Edge[®] Group ("PEG") at State Street Corporation and verified by the Performance Monitoring Unit Staff, based on cash flow, valuation and activity data captured by PEG and various AIM Program External Resources. Specific highlights of the portfolio are given below.

Portfolio Summary

- As of June 30, 2008, the AIM Program had a total exposure of \$50.8 billion. Total exposure is the current reported value of investments plus the remaining amount of unfunded commitments.
- Since inception, the AIM Program has made contributions of \$37.2 billion, received distributions of \$25.8 billion and has a remaining reported value of \$24.0 billion. Of the \$25.8 billion in distributions, \$13.9 billion represents realized gains, income and dividends.

SUMMARY OF AIM PORTFOLIO SINCE INCEPTION (MARCH 1990) THROUGH JUNE 30, 2008 (US\$ IN MILLIONS)

	Capital Contributed ⁽³⁾	Distributions		Reported Value ⁽⁵⁾	Investment Multiple
		Return of Capital	Realized Gain ⁽⁴⁾		
Total Active Commitments⁽¹⁾	\$31,448.6	\$7,710.5	\$10,574.1	\$23,985.5	1.3x
Total Exited Commitments⁽²⁾	\$5,777.8	\$4,161.4	\$3,370.7	--	1.3x

⁽¹⁾ An active commitment refers to an investment that has not reached the end of its legal term.

⁽²⁾ An exited commitment is defined as a commitment that has ended in accordance with the terms of the partnership agreement.

⁽³⁾ Includes fees in excess of committed capital.

⁽⁴⁾ Realized gains include interest, dividends, gains and losses distributed by the general partners in addition to interest paid by CalPERS for participation in subsequent closings of certain investments.

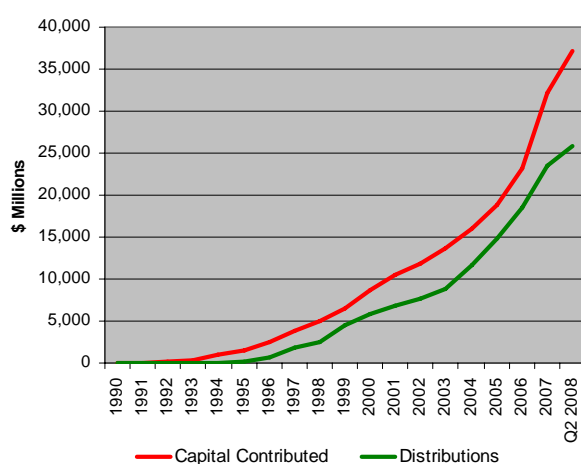
⁽⁵⁾ Based on values reported by the general partners as of June 30, 2008.



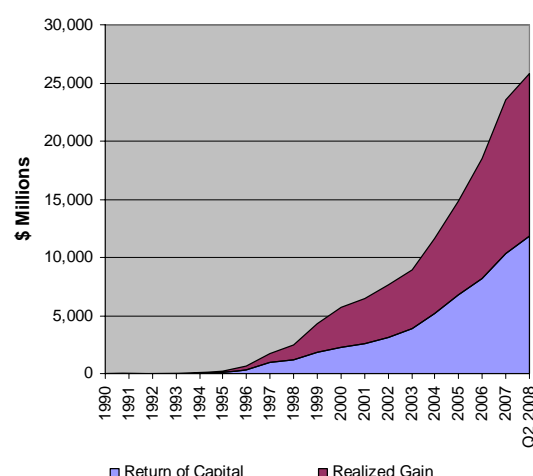
Performance

- Since inception to June 30, 2008, the AIM Program generated a net IRR of 13.0%. At June 30, 2008, the public market ten-year rolling average return for the CalPERS' Custom Wilshire 2500 Index plus 300 basis points was 8.9%.
- As of June 30, 2008, the weighted average age of all of the current investments in the AIM portfolio was 3.1 years. Consequently, a large portion of the portfolio is in the early stage of its investment life, when payment of fees has not been offset by young investments that are held at cost. This is known as the J-Curve effect.
- To address the young age of the partnership portfolio, CalPERS adopted a short-term benchmark, the Venture Economics Custom Young Fund Universe. The benchmark measures performance of the AIM partnerships in the first five years of life against a similarly aged universe of Venture Economics data. As of March 31, 2008, the AIM young fund net internal rate of return ("IRR") was 15.5% which exceeded the estimate of the March 31, 2008 Custom Young Fund Universe median return of 4.4% by 1,100 basis points. The AIM Program is displaying solid returns for a young portfolio.

**AIM PROGRAM CUMULATIVE
CASH FLOW SINCE INCEPTION**



**AIM PROGRAM CASH DISTRIBUTIONS
SINCE INCEPTION**



Portfolio Activity

- 16 new commitments were authorized during the second quarter of 2008 for a total of \$4.5 billion.
- During the second quarter of 2008 the AIM Program received 88 proposals for new investment opportunities.
- During the first half of 2008, the AIM Program contributed \$5.1 billion to and received distributions of \$2.3 billion from the underlying portfolio. Of the \$2.3 billion in distributions, \$0.8 billion represents income and realized gains.

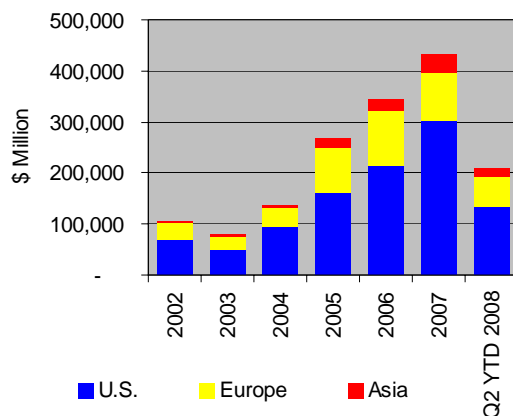


B. MARKET OVERVIEW

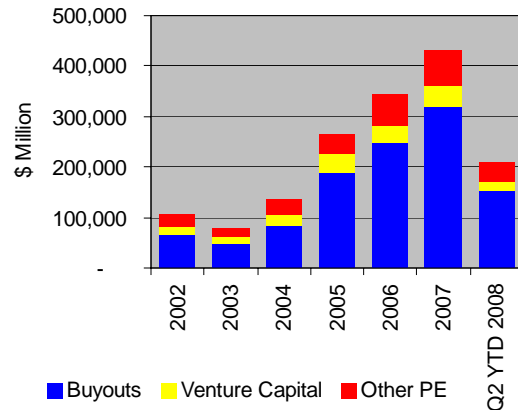
Market

- According to the Private Equity Analyst, \$210.2 billion was committed globally to 298 funds during the first half of 2008. The commitment pace is up 7% from the first half of 2007 when \$196.4 billion was committed globally to 332 funds. Between 2003 - 2007, the global pace of new commitments increased at an annual rate of 53%.
- Commitments to U.S. private equity funds declined by 3% during the first half of 2008 to \$132.7 billion, comprising 63% of all new funds. Commitments to European private equity funds grew by 34% during the first half of 2008 to \$61.1 billion, comprising 29% of all new funds. Commitments to Asian private equity partnerships grew by 19% during the first half of 2008 to \$16.4 billion, comprising 8% of all new funds.
- Venture capital fundraising increased by 16% during the first half of 2008 with \$17.2 billion of commitments, comprising 8% of all new funds. Buyout fundraising was up 6% from the first half of 2007 with \$151.3 billion committed in the first half of 2008, comprising 72% of all new funds. The remaining \$41.7 billion raised in the first half of 2008 was committed to other private equity funds (primarily mezzanine funds, fund of funds and secondary funds), comprising 20% of all new funds.
- Venture capital fundraising increased most rapidly for Asian funds, with a 81% increase in the first half of 2008. European venture capital fundraising declined 15% during the first half of 2008, while U.S. venture capital fundraising increased by 15%. Overall, the average size of a new venture capital fund increased by 10% during the first half 2008 to \$158.0 million.
- Buyout fundraising increased most rapidly for European funds, with a 134% increase in the first half of 2008. U.S. and Asian buyout fundraising declined by 20% and 5%, respectively, during the first half of 2008. Overall, the average size of a new buyout fund increased by 19% during the first half of 2008 to \$1.2 billion.

Funds Raised (All Private Equity)



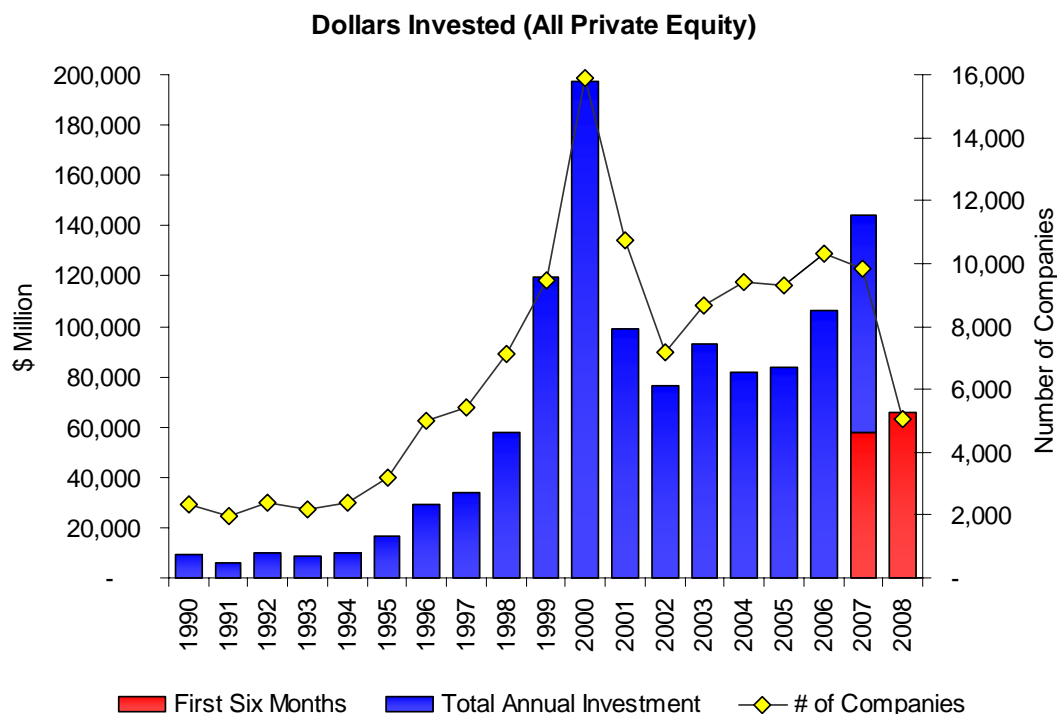
Funds Raised (All Private Equity)



Source: Private Equity Analyst



- Deal activity for all private equity during the first six months of 2008 increased in dollar amount but decreased in the number of companies receiving funding compared to the first six months of 2007. According to Venture Economics, 5,074 companies received \$66.0 billion in funding in the first six months of 2008, compared with 5,149 companies that received \$58.1 billion in the first six months of 2007.
- In the first six months of 2008, venture capital activity increased in dollar amount and in the number of companies receiving funding compared to the first six months of 2007. According to Venture Economics, 3,896 companies received \$37.3 billion in venture funding in the first six months of 2008 compared with 3,775 companies that received \$28.2 billion in the first six months of 2007. During the first six months of 2008, buyout activity increased in dollar amount and decreased in the number of companies that received funding. According to Venture Economics, 2,360 companies received \$35.5 billion in buyout funding in the first six months of 2008, compared with 2,542 companies that received \$35.3 billion in first six months of 2007.⁽⁶⁾



Source: Venture Economics

⁽⁶⁾ According to Venture Economics, certain investments meet the definitions for both Venture and Buyout categories and are included in the total for each category. For the purposes of determining the Total Private Equity investments for the quarter, these investments are included only once. As such, the sum of Venture and Buyout categories exceeds the Total Private Equity figures for the quarter by the amounts of the investments that meet both Venture and Buyout definitions.



C. PORTFOLIO OVERVIEW

Portfolio Diversification – By Strategy

The AIM Program invests in all types of private equity and is well diversified. The total exposure is generally consistent with the diversification within the private equity marketplace. Thus, a majority of AIM Program's total exposure is to Corporate Restructuring, Distressed Securities, and Expansion Capital.

TOTAL EXPOSURE BY PORTFOLIO STRATEGY (US\$MILLION)

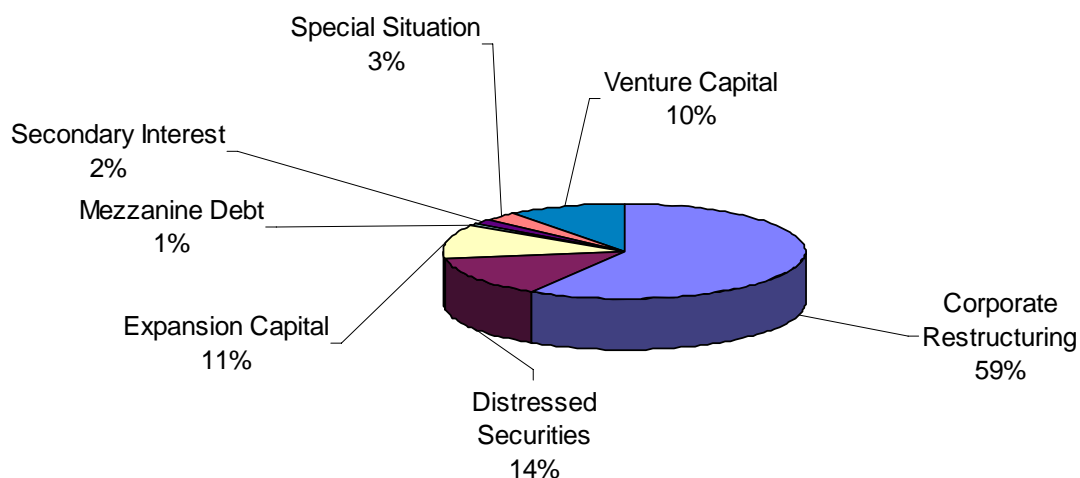
	Unfunded Commitments	Reported Value	Total Exposure	Contributions	Distributions	
					Return of Capital	Realized Gain ⁽⁷⁾
Corporate Restructuring	\$16,636.0	\$13,035.8	\$29,796.8	\$17,005.1	\$4,403.7	\$7,103.4
Distressed Securities	\$3,066.0	\$4,100.7	\$7,166.7	\$4,360.4	\$459.8	\$485.7
Expansion Capital	\$2,247.7	\$3,449.9	\$5,697.6	\$4,117.9	\$875.6	\$1,130.1
Mezzanine Debt	\$258.6	\$179.3	\$437.9	\$476.8	\$242.2	\$121.5
Secondary Interest	\$530.6	\$345.7	\$876.3	\$844.5	\$652.3	\$171.3
Special Situation	\$966.1	\$496.9	\$1,463.0	\$778.5	\$205.2	\$209.9
Venture Capital	\$2,745.0	\$2,377.2	\$5,362.2	\$3,865.4	\$871.7	\$1,352.2
Total	\$26,450.0	\$23,985.5	\$50,800.5	\$31,448.6	\$7,710.5	\$10,574.1

⁽⁷⁾ Realized gains include interest, dividends and gains distributed by the general partners.



The below graph depicts the AIM Program's strategy diversification by total exposure.

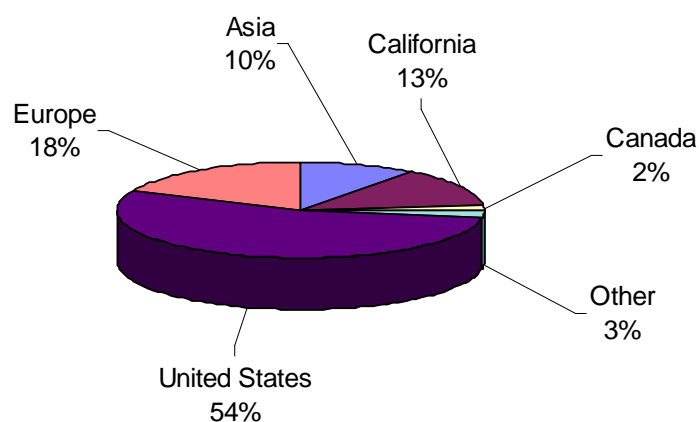
**AIM Program - Portfolio Diversification by Strategy
As a Percentage of Total Exposure
As of June 30, 2008**



Portfolio Geographic Diversification

As of June 30, 2008, CalPERS' AIM portfolio was well diversified by geographic region. By reported market value, 13% of the investments were in companies with their primary locations within California and 54% of the investments were in non-California domestic areas. International portfolio companies represented 33% of the total reported market value of all portfolio companies.

**Portfolio Diversification by Geographic Location
As Measured by CalPERS' Reported Value
As of June 30, 2008**



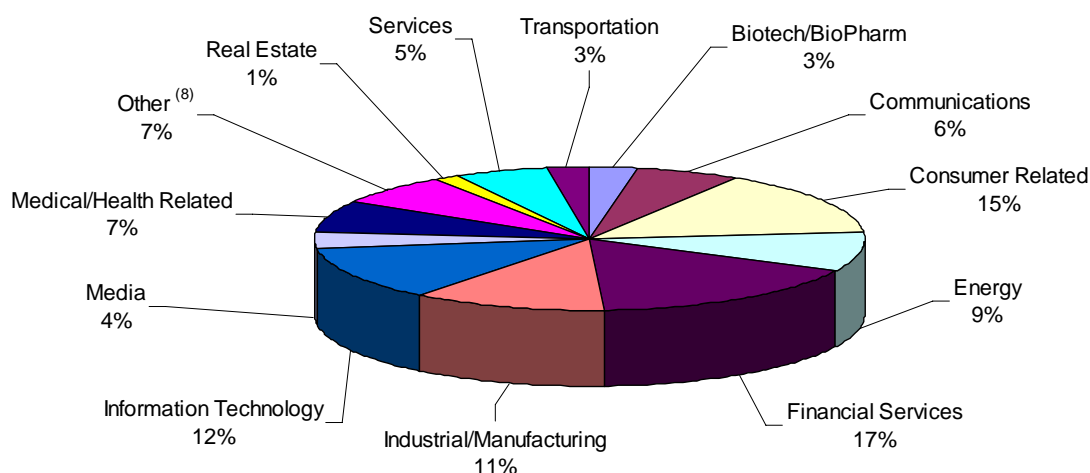
Portfolio Company Diversification by Industry

As of June 30, 2008, the CalPERS AIM portfolio was broadly diversified by industry. The table below outlines the current reported value of the portfolio companies held in the AIM portfolio. Within the overall portfolio, the largest segments were financial services, consumer-related, information technology and industrial/manufacturing.

PORTFOLIO DIVERSIFICATION BY INDUSTRY AS OF JUNE 30, 2008

Industry	Reported Value (US\$ MILLIONS)
Biotechnology/BioPharm.	\$541.6
Communications	\$1,270.9
Consumer Related	\$2,956.0
Energy	\$1,756.7
Financial Services	\$3,363.3
Industrial/Manufacturing	\$2,326.5
Information Technology	\$2,477.5
Media	\$712.2
Medical/Health Related	\$1,424.1
Other ⁽⁸⁾	\$1,438.5
Real Estate	\$293.7
Services	\$1,070.8
Transportation	\$527.4
Total	\$20,159.2

Portfolio Diversification by Industry As Measured by CalPERS' Reported Value As of June 30, 2008



⁽⁸⁾ Includes CalPERS' investments held through fund-of-funds.



California Focus

As of June 30 2008, the AIM Program had \$13.3 billion in total exposure to funds that were either headquartered or had a major presence in California. The total exposure to funds that focus primarily on investments in California were \$1.5 billion. In addition, many AIM Program partnerships actively make investments in California. Currently, California-based companies represent 13% of the reported market value of the AIM portfolio.

CALIFORNIA-BASED PORTFOLIO DIVERSIFICATION BY INDUSTRY AS OF JUNE 30, 2008

Industry	Reported Value (US\$ IN MILLIONS)
Biotechnology/BioPharm.	145.3
Communications	123.4
Consumer Related	367.6
Energy	74.9
Financial Services	598.3
Industrial/Manufacturing	90.9
Information Technology	529.1
Media	200.6
Medical/Health Related	290.1
Other ⁽¹⁾	66.2
Real Estate	20.1
Services	94.9
Transportation	29.7
Total	\$2,631.1

⁽⁹⁾ Includes CalPERS' investments held through fund-of-funds.

The AIM Program includes a California-oriented component that is designed to take advantage of a number of factors conducive to targeted investment activity within the state: (i) the unique size characteristics of the California economy; (ii) the existence of a "capital gap" for certain business segments within the state; and (iii) the ability to construct a diversified array of investment vehicles that reflects the state's large number of business entities and the wide range of development cycles that they represent.



Commitments and Contributions Since Inception

Since inception to June 30, 2008, CalPERS has contributed capital of \$37.2 billion, including exited investments. As expected, the earlier vintage year partnerships have the highest deployment percentage as it typically takes some time for each partnership to call down the full amount of committed capital. The total capital committed by vintage year is presented in the table below.

SUMMARY OF CAPITAL COMMITMENTS AND CONTRIBUTIONS (US\$ IN MILLIONS)

Vintage Year	Capital Committed	Capital Contributed	Reported Value	Return of Capital	Realized Gain ⁽¹⁰⁾	Investment Multiple
1990	\$125.3	\$121.9	\$0.2	\$119.5	\$176.2	2.4x
1991	171.7	179.6	0.3	150.5	358.8	2.8x
1992	160.0	156.6	0.5	109.4	232.1	2.2x
1993	563.0	560.0	10.1	461.3	614.5	1.9x
1994	1,507.6	1,416.9	45.0	969.7	1,413.0	1.7x
1995	1,197.9	1,141.3	29.8	740.9	1,146.2	1.7x
1996	1,155.9	1,133.8	38.0	677.6	816.1	1.4x
1997	1,111.9	1,091.4	119.3	589.5	869.9	1.4x
1998	2,216.7	2,177.3	334.3	1,402.6	1,255.5	1.4x
1999	1,254.0	1,147.9	228.9	604.1	679.7	1.3x
2000	3,978.2	3,699.4	1,350.5	1,917.7	1,716.2	1.3x
2001	4,817.1	4,301.2	3,252.4	1,981.6	2,412.0	1.8x
2002	1,092.6	1,031.6	700.9	428.0	451.3	1.5x
2003	1,496.2	1,298.6	1,029.8	504.7	754.9	1.8x
2004	2,014.6	1,640.0	1,363.6	576.6	554.0	1.5x
2005	3,912.6	3,129.6	3,056.0	437.8	356.1	N/M
2006	9,179.5	5,388.9	5,267.7	102.6	125.5	N/M
2007	16,243.2	5,831.2	5,359.7	95.6	12.7	N/M
2008	7,536.9	1,779.3	1,798.5	2.2	0.1	N/M
Authorized ⁽¹¹⁾	5,232.3	-	-	-	-	N/A
Total	64,967.2	37,226.5	23,985.5	11,871.9	13,944.8	1.3x

⁽¹⁰⁾ Realized gains include interest, dividends, gains and losses distributed by the general partners in addition to interest paid by CalPERS for participation in subsequent closings of certain investments.

⁽¹¹⁾ These commitments have been authorized subject to satisfactory final due diligence, negotiation of investment terms and conditions and completion of all legal documents, including opinions of counsel regarding the preservation of CalPERS' limited liability status, and no material changes to the investment opportunity.



D. SIGNIFICANT EVENTS/ MATERIAL EXCEPTIONS TO POLICY (AS REPORTED BY THE AIM PROGRAM)

Significant Events

- During Q2 2008, the AIM Program closed on a portion of its planned secondary sale of partnership investments.
- No other events to report for the quarter ended June 30, 2008.

Material Exceptions to Policy

- None to report for the quarter ended June 30, 2008.





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October 20, 2008

SUPPLEMENTAL ITEM

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Economically Targeted Investments Program Policy
- II. PROGRAMS:** Real Estate, Fixed Income, and Alternative Investments
- III. RECOMMENDATION:** Information only
- III. ANALYSIS:**

Under the CalPERS' Economically Targeted Investments Program Policy, Staff is directed to report annually to the Investment Committee the Fund's investment in underserved areas of California. All told, as of June 30, 2008, CalPERS' investments and commitments to underserved areas of California totaled \$4.365 billion, equal to approximately 1.82% of CalPERS' total assets, which is just under our stated goal of 2%. CalPERS continues to work with its partners to find investment opportunities that meet the goals of this policy and provide competitive risk-adjusted rates of return. These investments are summarized in Attachment 1 and are concentrated in the following three asset classes:

A. Real Estate

Our Real Estate Program investments in underserved areas of California through the CURE Program, Senior Housing, AFL-CIO Building Investment Trust, Opportunity Funds, REIT Urban, and Single Family Housing. This asset class has total commitments and investments of approximately \$2,506 million to underserved areas of California.

B. Alternative Investments

The AIM Program participates in underserved areas through the California Initiative Program which has also committed \$1,040 million to 11 partnerships. In addition, the AIM unit participates in underserved areas through other fund commitments. This asset class has total commitments and investments of approximately \$1,597 million to underserved areas of California.

C. Fixed Income

Fixed Income invests in underserved areas of California through the Community Redevelopment Act (CRA) and the California Community Mortgage Fund. This asset class has total commitments and investments of approximately \$261.5 million to underserved areas of California.

IV. STRATEGIC PLAN

Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

V. RESULTS/COSTS

This policy has increased CalPERS' exposure to the underserved and emerging market components of California's economy as well as CalPERS' overall exposure to the California State economy.

Christian Cardeno
Investment Officer

Matt Flynn
Division Chief
Operations, Performance & Technology

Anne Stausboll
Interim Chief Investment Officer

CalPERS' Economically Targeted Investments Program Policy Attachment 1

<u>Real Estate</u>	<u>Millions</u> ¹
AFL-CIO Building Trust	\$39.02
California Urban Real Estate	\$1,515.13
Opportunity Funds	\$126.64
REIT Urban	\$74.31
Senior Housing	\$53.10
Single Family Housing	<u>\$698.04</u>
Total Real Estate	\$2,506.22
 <u>Alternative Investments</u>	
California Initiative	\$1,040.00
Other Fund Commitments	<u>\$557.00</u>
Total Alternative Investments	\$1,597.00
 <u>Fixed Income</u>	
Member Home Loan CRA	\$237.40
CA Community Mortgage Fund	<u>\$24.10</u>
Total Fixed Income	\$261.50
 Grand Total	<u><u>\$4,364.72</u></u>

¹ Discloses the total of commitments and actual investments as of June 30, 2008.